

PUBLIC OVERSIGHT HEARING
FY 2003 AND FY 2004 SPENDING AND PERFORMANCE
BY THE OFFICE OF THE CHIEF FINANCIAL OFFICER

Before the
Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

February 25, 2004, 9:00 a.m.
Council Chamber



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Chief Financial Officer
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Good morning, Chairman Evans and Members of the Committee on Finance and Revenue. I am Natwar M. Gandhi, and I am the Chief Financial Officer of the District of Columbia Government. I am here for your annual oversight hearing to testify on the spending and performance of the Office of the Chief Financial Officer (OCFO) for FY 2003 and to date in FY 2004.

All of my Deputy Chief Financial Officers are with me today to help address specific issues or answer questions as needed. They also will testify later on their individual offices. These colleagues are Dan Black, the Deputy Chief Financial Officer for the Office of Tax and Revenue (OTR); Dr. Julia Friedman, the Deputy Chief Financial Officer for the Office of Revenue Analysis (ORA); Tony Calhoun, the Deputy Chief Financial Officer for the Office of Finance and Treasury (OFT); Tony Pompa, the Deputy Chief Financial Officer for the Office of Financial Operations and Systems (OFOS); and Bert Molina, the Deputy Chief Financial Officer for the Office of Budget and Planning (OBP). Mr. Molina already has appeared before the Committee of the Whole for their oversight hearing on OBP. In addition, Jeanette Michael, the Executive Director of the DC Lottery, has testified today on behalf of the Lottery.

As the Chief Financial Officer, my responsibility is to ensure the overall financial viability of the District of Columbia in the short-, mid-, and long-term. My staff and I are busy working on this at all times, in activities such as exercising control of the budget, improving relationships with the financial community, and dealing with Congress. One of our major efforts now is working with the Mayor and the Council to develop a response to the Senate Appropriations Committee request for

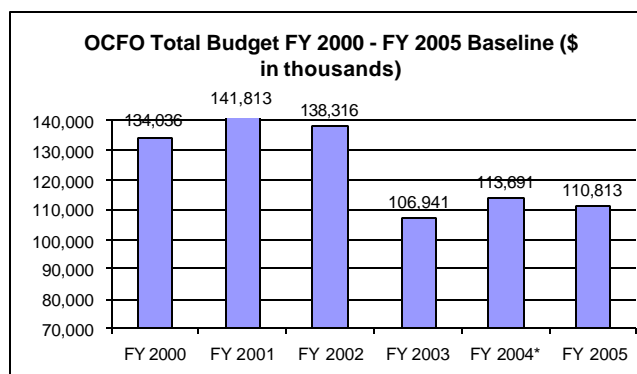
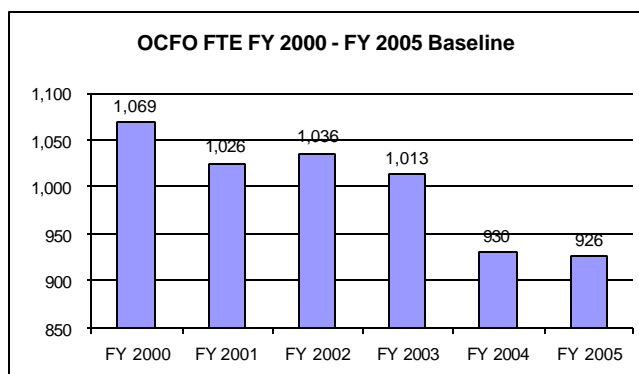
options to address the District's structural imbalance, which was the subject of a General Accounting Office report last year.

In my testimony today, and in response to your request, I would like to briefly review recent OCFO accomplishments and our plans for the future.

FY 2003 – 2004 OCFO Accomplishments

Operating Efficiencies

OCFO takes seriously its responsibility to submit budgets that ask for the minimum resources necessary to protect the District's financial integrity and preserve and enhance its revenue stream. As a result of technology investments, upgrading of staff skills and organizational improvements, the OCFO is able to present a proposed FY 2005 baseline budget that has 13% fewer FTEs and 17% fewer dollars (in terms of total dollar amount – capital and operating funds) than FY 2000 budget we executed. Over that same period, the consumer price index has increased 10.75 percent so that in real dollar terms, we are operating the OCFO at a cost nearly 28% lower than was the case in FY 2000. The charts below show these trends.



As we move forward in the FY 2005 Budget process, we would appreciate the Committee keeping this record of fiscal prudence in mind. From my perspective, it is imperative that the District maintain its capability to perform core financial functions – keeping track of the books, financing its operations and collecting revenue due the District. One does not have to go back many years to find a time when we were doing poorly on one or all of these critical functions. I urge the Committee to consider the gains that have been made in financial management and continue to provide the resources we need to operate at this level of excellence.

The 2003 CAFR

Certainly one of our significant accomplishments is the management of the Comprehensive Annual Financial Report (CAFR) process, and the resulting routinization of that process. The Office of Financial Operations and Systems (OFOS) deserves credit for this happy development. With the latest CAFR, issued just last month, the District achieved its seventh consecutive balanced budget with a clean opinion, confirming that the financial infrastructure is rebuilt and functioning well in support of the District's elected leaders as they make timely decisions. In turn, their dedication to balanced budgets and fiscal responsibility is a national model, and the District is getting recognition for it in the form of a bond rating upgrade to an A- and a positive outlook from the bond rating agencies. This is the first time in ten years that the District has had such a rating, and we will do everything in our power to protect and further enhance these gains.

Review of Reserve Requirements

As noted in the latest CAFR, the District's General Fund balance is \$897.4 million. However, we cannot look to this balance as an easy solution to financial problems, because 91 percent of it, or \$813.2 million, is reserved for specific uses. One of

those specific uses is the congressionally-mandated cash reserve, which totals \$253.8 million, and is 7 percent of the operating budget, among the highest for local government jurisdictions nationwide. This reserve, along with the financial prudence shown by you, Mr. Evans, the Council and the Mayor have played a major role in the District's improved bond ratings. However, the District needs to balance its reserve requirement with the requirement to provide essential services to its residents.

During the development of the FY 2005 budget request, the District's leaders must work together to present the Congress with fiscally prudent changes to the existing reserve requirements. We are exploring with stakeholders various ideas such as establishing a finite dollar cap on the amount of money held in reserve, rather than the current percentage of budget approach, and allowing the District to repay amounts withdrawn from the reserves over three years, instead of replenishing the entire amount in the following year as now required.

Budget Improvements

The Office of Budget and Planning (OBP) has made similar progress with budget improvements. One of these is helping with the implementation of a local anti-deficiency law, which is intended to prevent overspending by District agencies by providing sanctions for violators. I will have more to say on this later. Another improvement, CFO\$ource, is an online reporting tool that was first introduced in FY 2003 and was recently demonstrated before the Committee of the Whole. The development of CFO\$ource "dashboard" takes financial and performance reporting one step further, by providing operational budget, contract, performance, and other management information to agency directors, finance personnel, and executives so they can more effectively manage their budgets. This capability helps alert

agencies to potential overspending, so that corrective actions can be taken to avoid deficiencies.

Another budget improvement is the implementation of performance-based budgeting (PBB), which allows us to provide the Mayor and the Council with detailed information on agency budgets by program and activity. In FY 2004, the Phase III implementation has brought to 58 the number of District agencies using PBB, and in FY 2005 nearly all District agencies will have completed the transition. Additionally, the development of a new District-wide budget system based on Hyperion software will allow agencies to accurately formulate, execute, and report on their finances by fund and by program structure. It also will allow agencies to report their performance against key result measures.

Grants management is a third area of budget improvement. In FY 2003, the District spent over \$1.6 billion in federal grants and federal payments, and had approximately \$2.4 million of federal grants, or 0.15 percent of all federal expenditures, lapse. The comparable lapse figures for FY 2001, just two years ago, were \$4.3 million and 0.33 percent, so grant lapse has been cut by almost half during this period. To help reduce lapse even more, OBP is sending letters to agency staff as grants approach their expiration dates, to remind them to fully expend the funds or seek extension letters. Furthermore, to provide better information to managers, CFO\$ource has been extended to provide better and more timely data on grants expenditures and obligations. We have also begun developing a grants database that will include award amounts and grant end dates, two key fields that are not required in SOAR. CFO\$ource will ultimately link to this database, allowing users to request reports that, for the first time, show award

amounts, amounts spent in prior years, obligations in the current year, the remaining award balance, and the date this balance will potentially lapse.

Treasury Operations

The Office of Finance and Treasury (OFT) has successfully implemented the College Savings Plan (“529 Plan”), and increased the number of claimants reunited with their unclaimed property by 21.6 percent in FY 2003 over FY 2002, from 7,562 claimants to 9,193. The value of returned property in FY 2003 was \$7.5 million, and the goal for FY 2004 is \$8.5 million. The overall number of District bank accounts has continued to decrease, to 440 accounts, a lower total than Fairfax County or the state of Maryland, and far below the FY 2001 total of 1,053 accounts. We may have reached the effective minimum number of bank accounts needed to administer the District’s various operations.

In addition, cost savings to the District from OFT initiatives since 1999 include approximately \$25 million attributable to rating upgrades: \$14 million from lower interest rates and bond insurance costs on new bond issues, another \$1 million from not having to purchase note insurance, and an additional \$10 million from refinancing outstanding bonds at lower rates. OFT has facilitated the District saving additional millions in recent years by taking advantage of the record-low interest rate environment and utilizing sophisticated financing tools.

Tax Administration

In 2003, the Office of Tax and Revenue (OTR) received a total of 317,884 individual income tax returns, an increase of 25,518 tax returns over 2002, even though the District’s population has declined by about 9,000 since year 2000, according to estimates by the U.S. Census Bureau. Total tax collections in

FY 2003 were more than \$3.2 billion, a 5.5 percent increase from the previous year. To put this in perspective, this amount is \$770 million more than in FY 1997 when collections were \$2.5 billion. At the same time, there were declines in the volumes of walk-in taxpayers (about 10,000 fewer) and call center contacts (about 112,000 fewer) in FY 2003 from FY 2002. I believe these decreases are in large measure attributable to the availability of information through the Web.

Electronic filings of income tax returns in 2003 (71,647) increased 191% over 2000, when 24,596 electronic returns were filed. We are among the few local jurisdictions, and the first city, to offer free online tax filing, and the only city to provide account balances on the Web. For the fifth consecutive year, the average refund cycle time for all District tax returns was 15 days or less. Taxpayers filing electronically received their refunds in an average of 7 days. Expanding e-commerce is a key strategic goal for OTR.

We attribute these excellent results to the increased use of technology advances, the substantial amount of taxpayer information available on the Web, customer service outreach and the closing of inquiries by telephone, and to the technical skills of OTR employees.

Organizational Improvements in the OCFO

My senior managers and I are constantly looking for ways to improve our organization and make it as effective and efficient as possible. This takes many forms, including changes to staff, salaries, and organizational structure. Let me offer one example.

Within the OCFO, we have conformed the pay of union and non-union employees throughout our organization. With the exceptions of Department of Mental Health CFO employees (who are on a higher pay table inherited from that organization's days in receivership) and UDC CFO employees (who are covered by a different pay and benefits system), all CFO non-union employees are on a single pay table that mirrors that of union employees. We have eliminated the separate pay tables for management and supervisory system employees (MSS) and for attorneys.

Ever since I started work for the Government of the District of Columbia, employees have brought to my attention the basic inequity of a pay system that pays union employees at a higher rate of pay than non-union employees performing the same work or work of similar scope and complexity. This condition contributes to poor morale in the work place, and discourages employees from accepting management positions. It also leads to distortions of the personnel system as managers look to use position classification to address pay inequities. As an executive team, we should all be committed to rectifying this situation.

It was my judgement that a smaller number of high-performing and properly paid OCFO employees could perform the tasks of our offices more effectively and efficiently. As a result, we committed as a team to absorbing the first year (FY 2004) cost of the transition to a single pay table through organizational efficiencies and reductions in staff.

We have been successful in doing so and believe our experience can be a model for other District organizations. However, going forward we need support to maintain this equality of treatment. As the District increases the pay of non-union employees in subsequent years, it should be our policy to maintain parity in those

instances where it has been achieved, and expand the number of organizations where pay parity exists.

This is but one part of the OCFO restructuring efforts over the past few years. Our overall goal was to establish a common organizational structure, grade structure, span of control, and performance standards across agency CFO organizations, to improve efficiency, management, and communications. As a result, we now have a CFO structure that mirrors the Deputy Mayors; has improved direction, information and systems controls; and streamlined back-office financial operations based on consolidated accounting functions. Many of these changes have been accomplished in the past year, and between FY 2003 and FY 2004, OCFO resources dropped by 83 FTEs and \$4.1 million at a time when most city agencies were increasing their budgets.

FY 2004 OCFO Plans

We are not content with the improvements noted above, and are always looking for ways to improve the OCFO and the District.

Enhanced Internal Audit Capability

Consistent with our commitment to the “One Government” principle, my Office of Integrity and Oversight (OIO) has been working with the City Administrator and his staff in developing strategies and specific actions to improve the District’s management of federal grants through the Single Audit. A particularly important part of this effort was the development of a draft “Sub-recipient Monitoring Manual” for tracking grants that flow through the District to other entities. OIO also has worked with the Inspector General, the D.C. Auditor, the Mayor, the Council, and program officials on the audit of purchase card activity and, more

recently, the travel card program. In both cases, the work of the OCFO has produced tangible benefits, and we plan to continue this high level of coordination.

Implementation of Local Anti-Deficiency Act

Starting with its enactment last year and continuing to the present, the OCFO has led citywide efforts to implement the requirements of the local anti-deficiency act that I mentioned earlier. As you know, the "District Anti-Deficiency Act of 2002" establishes in local law requirements and processes for ensuring that expenditures do not exceed appropriated amounts, as well as provides sanctions for District employees who violate the law, and requires program and financial managers to fulfill complex reporting requirements throughout the year. It has been a major undertaking for the OCFO both to educate District employees about the law and to develop good processes for the implementation of this law. To summarize these efforts, we have notified agency heads, managers, and finance personnel throughout the District of the law's provisions through training, correspondence, and verbal outreach. We have developed comprehensive policies and procedures for the new Board of Review for Anti-Deficiency Violations and worked with the Offices of the Mayor and the Inspector General to make the required Board appointments. Additionally, our commitment to educating District managers and employees on how to recognize and report alleged anti-deficiency violations to the Board is on-going. The Board, which had its first official meeting on February 24th, includes representatives of the OCFO, the Mayor, and the Inspector General.

Administrative Services Modernization Program (ASMP)

The OCFO actively supports ASMP and will benefit from it. In particular, the new budget system I mentioned earlier, which is a part of this citywide project,

represents a business transformation that will provide a District-wide, Web-based tool designed to improve the efficiency and accuracy of the city's budget process. We believe that when fully implemented, this system will simplify a very complex process with Web-based tools, improve the quality of our budgeting, and ultimately benefit the Council and the Mayor by providing more accurate financial information linked with performances measures so that you can make more informed decisions. This project is jointly managed by OBP and the Office of the Chief Technology Officer.

In conclusion, Mr. Chairman, let me say that we in the OCFO take great pride in our organizational accomplishments over the past few years. We are delivering better, faster financial services to the Council, the Mayor, and the citizens of the District with fewer employees and at less cost, as I noted earlier. I believe we have established a management team that can be compared favorably with the best in the country. This listing of our recent accomplishments and future plans demonstrates our commitment to making the OCFO as effective and efficient as we can, and to being a positive force for good government.

My colleagues and I will be pleased to answer any questions you or the members may have.

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